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Report of the Commission on Enterprise, Business Facilitation and Development on its fourth session

held at the Palais des Nations, Geneva,
from 19 to 23 July 1999

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Chapter I

AGREED CONCLUSIONS AND RECOMMENDATIONS ADOPTED BY THE COMMISSION AT ITS FOURTH SESSION

Agenda item 3: **Assessment of innovative policies and non-fiscal measures for upgrading SME clusters, promoting investment to SMEs and developing their external linkages, taking into account the respective roles of the private sector and governmental and other institutions, with the aim of fostering competitiveness, innovation and productivity in a globalizing world economy**

Importance of clustering

1. The Commission recognizes that clusters and networks of small and medium-sized enterprises (SMEs) are among the most effective ways of delivering technical assistance to SMEs in order to upgrade technology, increase participation in domestic and international trade and strengthen entrepreneurship and management and marketing skills.

2. In addition, clustering can create a critical mass which permits economies of scale and scope in sharing facilities, sourcing inputs and utilizing support services, such as training and marketing. Clustering can also contribute to SMEs' speed in reacting to market needs and pressures.

3. Benefits are to be gained in areas where SMEs face particular constraints in their absorptive capacity, such as knowledge acquisition and knowledge deployment in the field of new technologies.

A. Addressed to Governments

4. Governments are invited to intensify their efforts to create an enabling environment, including stable macroeconomic policies, a coherent and flexible regulatory framework that encourages free competition, efficient physical infrastructure and the necessary improvement in education and human resource development in order to promote SME upgrading and business and technological capability development.

5. Governments are invited to promote policy coherence between all branches of Government, particularly in the areas of trade, industry, finance and education, such that an integrated approach is offered to domestic companies and foreign investors.

6. SMEs and research and technology organizations (RTOs) that have the appropriate absorptive capacity are better positioned to access and maximize the technological benefits from

foreign direct investment (FDI). It is necessary to define and implement policies that will enhance the ability of SMEs to acquire, absorb and adopt the technology brought by foreign investors. In this context:

(a) Governments are invited to consider ways to encourage transnational corporations (TNCs) to contribute to development by working with RTOs and SMEs to build technological capability;

(b) Governments are invited to consider ways to make the work of RTOs more responsive to the needs of SMEs, and more effective in delivering the services that their markets demand.

7. Governments should encourage partnerships and facilitate networking among and between technology supply-side institutions such as RTOs, business associations and universities at the local, regional, national and international levels.

8. Since innovation policies can be most effective when directed at networks or clusters, Governments, together with the private sector and the international community, are invited to accelerate their efforts to promote SME clustering and networking through the facilitation rather than the direct provision of business development services.

9. Maintaining or increasing competitiveness in a globalizing economy requires a larger volume and set of resources, including financial resources, than SMEs traditionally have in-house or can easily access. Accordingly, Governments are invited to adopt policies and foster appropriate partnerships to facilitate collaborative research and development (R&D) and the development of human resources to assist SMEs to upgrade or enhance their technological capabilities.

10. In order to avoid that product and service standards and certification requirements become non-tariff barriers to trade, Governments are invited to develop policies which will assist enterprises to comply with such standards. In this context, Governments are invited to develop policies to create national certification and accreditation bodies which comply with international standards.

B. Addressed to the international community

11. The Commission has addressed issues of networking and clustering as possible tools to increase the competitiveness and technological capability of SMEs in developing countries, the least developed countries and countries with economies in transition. Such tools can take many forms, ranging from inter-firm cooperation to public–private partnerships or targeted networking for specific technologies. Technology cooperation between economic actors from industrialized, developing and transition economies continue to be promising strategies – among others – to overcome limited access to information and technology. The international community and especially the relevant international organizations are called upon to:

(a) Support technology cooperation by linking TNCs, SMEs and RTOs in their programmes where appropriate;

(b) Identify how the growth and competitiveness of existing and emerging clusters can be upgraded and develop pilot projects/programmes.

C. Addressed to UNCTAD

12. UNCTAD is also called upon to support developing countries and countries with economies in transition in their attempts to make operational such strategies, particularly through:

(a) Assisting countries to regularly review their science, technology and innovation policies with a view to prioritizing activities that encourage cooperation, partnerships and networks between local and foreign economic actors (firms, business organizations, enterprise development agencies, R&D institutions, etc.);

(b) Diffusing information on successful initiatives related to cooperation between SMEs, TNCs and RTOs. Attention should be focused on the most effective ways of enabling SMEs to achieve higher quality standards, including the analysis of best practices in diffusing innovation to SMEs in sectors of particular importance to developing countries;

(c) Examining best practices in attracting, retaining and gaining benefits from FDI with the aim of establishing mechanisms for innovation and technology transfer to SMEs and local capability development through clustering.

Agenda item 4: Electronic commerce and the integration of developing countries and countries with economies in transition in international trade

13. The Commission recalls that in the agreed conclusions of its previous sessions, it stressed the growing importance of electronic commerce for trade and development. Since then, the trends identified by the Commission have not weakened. UNCTAD should continue to assist developing countries, the least developed countries (LDCs) and countries with economies in transition in issues relating to electronic commerce.

14. Considering the intersectoral nature of electronic commerce, which includes technical, economic, social, legal and other policy-related aspects, such assistance should continue to be provided in a spirit of cooperation and synergy with other relevant institutions.

15. The Commission takes note of the agreed conclusions and recommendations of the Expert Meeting on capacity-building in electronic commerce: legal and regulatory aspects, as described in the oral report provided by the chairperson of the Expert Meeting, and recommends that the

Trade and Development Board should endorse the agreed conclusions and recommendations as amended.[1]

16. The prominent role of enterprises as early adopters of electronic commerce cannot be underestimated, and should be granted appropriate recognition in the implementation of the recommendations below.

A. Addressed to Governments

17. Governments are invited to pursue their efforts to stimulate the emergence of an "e-commerce culture" by sensitizing and involving all relevant parts of civil society in their national efforts to promote participation in electronic commerce. In this context, due consideration should be granted to the experience of countries which have successfully established "e-commerce national task forces".

18. Efforts to encourage investment in information infrastructure, the provision of supportive legal and regulatory frameworks, and the adoption of measures likely to lower access and usage costs of telecommunications and Internet-based services should be pursued and strengthened.

19. Training and education in areas such as information technology and knowledge-intensive activities should become part of the regular academic curriculum, and efforts to upgrade local teaching skills (including through the training of trainers) should be encouraged. The use of local languages and the provision of local content in electronic exchanges of information (including electronic commerce) should be supported and encouraged.

B. Addressed to the international community

20. The international community is encouraged to grant priority in relevant ongoing discussions, debates and negotiations to the development dimension of electronic commerce.

21. Additional efforts are encouraged in the following areas:

(a) Assistance to developing countries, LDCs and countries with economies in transition in enhancing their trade efficiency through the use of electronic commerce;

(b) Provision of appropriate support to efforts already under way at the national, regional and interregional levels to upgrade the skills of developing countries, LDCs and countries with economies in transition in electronic commerce and related areas; and

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[1] See paragraph 104 of this report.

(c) Appropriate efforts to assist LDCs and other countries with similar needs in their efforts to build capacity in knowledge-based activities, in particular electronic commerce. Preparations for the upcoming Third United Nations Conference on the Least Developed Countries, to be held in 2001, might provide an adequate framework to identify possible avenues for action and international support in this regard.

C. Addressed to UNCTAD

22. UNCTAD is called upon to continue its work on electronic commerce on the basis of the following principles:

(a) Exchanges of experiences in the area of electronic commerce and related areas, such as Internet-based services, should be stimulated;

(b) Attention should be devoted to the development dimensions of electronic commerce, including questions related to access to information infrastructure, human resources development, and provision of local content;

(c) Continued attention should be devoted to inter-institutional cooperation with the relevant bodies, in order to enhance synergies between UNCTAD's work on electronic commerce and that of other forums;

(d) UNCTAD should continue to assist developing countries with analyses, training courses, workshops and seminars and other forms of technical assistance in helping them to prepare for the ongoing multilateral discussions and negotiations on electronic commerce and related issues, including in the World Trade Organization (WTO), the World Intellectual Property Organization (WIPO), and the International Telecommunication Union (ITU), so as to enhance developing countries' capacities to participate actively in electronic commerce; and

(e) Continued priority should be granted to pragmatic approaches to electronic commerce, including the stimulation of exchanges of experiences among enterprises involved in electronic commerce, awareness-raising and support at the regional, interregional and international levels.

23. In particular, UNCTAD is called upon to support developing countries, LDCs and countries with economies in transition in their efforts to better comprehend the issues related to electronic commerce, and to design and implement their own electronic commerce strategies. In this context, the following areas of activities should receive appropriate resources and priority:

(a) The pursuit of efforts to collect and disseminate information regarding electronic commerce and development, including on the work under way in various relevant forums;

(b) The provision of analytical and statistical studies on the various aspects of electronic commerce which are of particular importance for the participation of developing countries, LDCs and countries with economies in transition in international trade: the inter-relationship between, on the one hand, electronic commerce and, on the other, trade efficiency in areas such as customs, transport, banking and insurance, trade facilitation and telecommunications should be central in such work;

(c) The continuation of its work in enhancing developing countries' awareness and knowledge of ongoing efforts to establish appropriate policy for electronic commerce: close cooperation with bodies such as the United Nations Commission on International Trade Law (UNCITRAL), the Economic Commission for Europe (ECE), WIPO, ITU, the International Organization for Standardization (ISO), WTO, the Organisation for Economic Co-operation and Development (OECD) and other relevant organizations is encouraged in this domain; and

(d) The pursuit of its efforts to stay abreast of the latest developments in the techniques, tools and solutions used by the more advanced players in the field of electronic commerce, and to provide members of UNCTAD with relevant information in this regard.

24. The Commission considers with great interest the work already undertaken by UNCTAD on electronic commerce in the context of United Nations General Assembly resolution 53/220 of 7 April 1999. In particular, the organization of regional workshops on electronic commerce and development (to be hosted between August and October 1999 by, respectively, Peru, Kenya and Sri Lanka) offers a major opportunity to enhance global participation in electronic commerce and related debates. However, the Commission recommends that member States be consulted in the development of future proposals in order to reflect member States' actual needs. It is the hope of the Commission that these workshops will be open to participation from experts and delegates from other regions, including from developed countries, and that their respective outcomes can be appropriately reflected in relevant international forums, such as the OECD meeting on electronic commerce in October 1999, the Third WTO Ministerial Conference in November-December 1999, and UNCTAD X in February 2000. The Commission expresses interest in extending similar activities to countries in other regions not covered by the above-mentioned workshops. The Commission takes note that ECE is organizing a regional workshop on electronic commerce for countries with economies in transition and recommends that UNCTAD participate in the workshop.

Chapter II

OPENING STATEMENTS

25. The **Secretary-General of UNCTAD** said that since the current session was the last before UNCTAD X, delegations might wish to take stock of the Commission's achievements since its third session, assess the functioning and output of the Commission since its creation, and consider which of the topics and issues addressed by it so far should remain on the agenda of UNCTAD after UNCTAD X. The Commission might also wish to indicate which new issues, or issues not yet adequately addressed, ought to be considered.

26. With regard to the issues covered by the Division on Investment, Technology and Enterprise Development, at its first session the Commission had recognized the crucial role played by small and medium-sized enterprises (SMEs) in stimulating broad-based, equitable and sustainable development, and had acknowledged the pressures on SMEs as a result of the process of globalization. For example, the growing knowledge-intensity of production had increased the levels of technological capability required for enterprise growth. The Commission had subsequently identified four areas for future analytical work and expert meetings: (a) the respective roles of government and the private sector and the interactions between them in SME development; (b) inter-firm cooperation; (c) SME clustering and networking; and (d) the provision of sustainable financial and non-financial services for SME development. The Commission would need to consider whether UNCTAD should continue its analytical work and policy research on emerging issues that might undermine or pose challenges to SMEs in the current competitive environment.

27. Access to technology and the transfer of technology were extremely important for the growth and development of developing countries. One of the most worrying aspects of globalization was the wide and widening technological gap between developed and developing countries, with the bulk of the world's technology being concentrated in the hands of transnational corporations. As the linkages between transnational corporations and SMEs were among the pressing issues that merited further analytical work, the secretariat had proposed a special round table on transnational corporations, SMEs and development as a parallel event at UNCTAD X, to address some of the access problems facing SMEs, particularly with regard to technology and markets.

28. It was necessary to ensure that international agreements on investment and technology and on international standards relating to quality, the environment and sanitary and phytosanitary matters were supportive of the development process and would not impose unduly high burdens on SMEs in developing countries.

29. Issues related to competition policy and corporate governance were becoming increasingly important, and UNCTAD should continue to promote increased transparency and financial disclosure through the development and use of internationally recognized accounting

and auditing standards. It should also promote the principles of corporate governance, including through transparency in corporate structures and operations, accountability at the managerial and board level, and a greater role for shareholders, particularly minority shareholders.

30. With regard to electronic commerce, one of the issues covered by the Division for Services Infrastructure for Development and Trade Efficiency, the work initiated by UNCTAD since the mid-1990s had developed from a series of pioneering initiatives into a more mature and internationally recognized set of activities. The Commission would be provided with a summary of the activities already under way, and suggestions for possible avenues of further action by UNCTAD. There was potential for greater international cooperation in that area, based on three important considerations: (a) the need to achieve complementarity and synergy among all relevant institutions, such as the World Trade Organization (WTO), the International Trade Centre UNCTAD/WTO (ITC), the Economic Commission for Europe (ECE), the International Telecommunication Union (ITU), the World Intellectual Property Organization (WIPO), the United Nations Commission on International Trade Law (UNCITRAL), the Organisation for Economic Co-operation and Development (OECD) and the World Bank; (b) the identification, analysis and exchange of practical experiences, in particular from enterprises involved in electronic commerce; and (c) the development dimensions of electronic commerce, including information infrastructure, access costs, connectivity, the provision of local content, the legal and regulatory environment, international discussions and negotiations, the fiscal dimensions and regional cooperation.

31. One of the characteristics of UNCTAD's work in the area of electronic commerce, and a source of comparative advantage, had been its ability to link and consider jointly three of the main dimensions of electronic commerce, namely, technology, trade and trade logistics. The combination of those three dimensions would be increasingly valuable as electronic commerce moved away from the areas in which it was first developed (i.e. business-to-consumer and service activities) to areas in which developing countries had a good chance of building or restoring a competitive advantage (i.e. business-to-business, commodities, and manufactured and semi-manufactured goods).

32. With regard to the institutional reform carried out since UNCTAD IX, the experience with expert meetings had been successful, especially since the participation of experts from developing countries had been assured. Expert meetings were able to produce practical recommendations for follow-up by the Commission. However, there was a need to assess the actual level of implementation of those recommendations at the national level. In the run-up to UNCTAD X, the Commission might wish to focus on the further integration of the various work programmes of UNCTAD and on setting priorities in its recommendations, while reflecting the basic mandate of UNCTAD.

33. The representative of **Japan** said she was pleased that the reports of the subsidiary bodies of the Commission were to be discussed before the agenda item to which they related. That was the logical way to ensure that the Commission benefited fully from the expertise and outcomes of expert meetings and workshops.

34. The representative of **Finland,** speaking on behalf of the **European Union**, expressed his satisfaction that, for the first time since UNCTAD IX, the intergovernmental machinery in UNCTAD was operating in the correct sequence: all the expert meetings had taken place, so that the Commission had an overview of all the deliberations and conclusions covered by its mandate. He welcomed the progress reports on activities related to SMEs and electronic commerce, and hoped that they would become a permanent feature on the agenda of the commissions. However, while the Commission had made a number of practical recommendations that could be put into action, progress in doing so had been slow. There had been insufficient coherence in the work adopted at the Commission level, a lack of substance in its discussions and poor follow-up in the implementation of its conclusions. It was important to bear in mind that any conclusions agreed at the current session would contribute, after appropriate prioritization, to the decision-making process at UNCTAD X.

35. The spokesperson for the **Latin American and Caribbean Group** (Chile) said the way in which SMEs were upgraded and the way in which electronic commerce affected the integration of the developing countries in the international trading system were extremely important factors in the development of countries in the Latin American and Caribbean region. UNCTAD should therefore continue with its in-depth analytical work on enterprise development, cooperation activities and the organization of expert meetings on those subjects. Globalization provided developing countries not only with opportunities but also with obstacles and challenges, which would have to be overcome and met if those countries were to avoid economic marginalization. UNCTAD's support for developing countries in the implementation of policies to promote the development of SMEs and the benefits of electronic commerce would help those countries to become fully integrated in the development process and to develop their competitive advantages so that the latter became real factors in job creation and income generation.

Chapter III

ASSESSMENT OF INNOVATIVE POLICIES AND NON-FISCAL MEASURES FOR UPGRADING SME CLUSTERS, PROMOTING INVESTMENT TO SMEs AND DEVELOPING THEIR EXTERNAL LINKAGES, TAKING INTO ACCOUNT THE RESPECTIVE ROLES OF THE PRIVATE SECTOR, AND GOVERNMENTAL AND OTHER INSTITUTIONS, WITH THE AIM OF FOSTERING COMPETITIVENESS, INNOVATION AND PRODUCTIVITY IN A GLOBALIZING WORLD ECONOMY

(Agenda item 3)

36. For its consideration of this item, the Commission had before it the following documentation:

"Policies and non-fiscal measures for upgrading SME clusters – an assessment" (TD/B/COM.3/22).

37. The **Director of the Division on Investment, Technology and Enterprise Development,** introducing agenda item 3, said that the increasing knowledge-intensity of production across all sectors of the economy and the widespread diffusion of innovation-based competition had sent a clear message to business that the requirements for competitiveness and survival had changed. Opportunities to enter and to expand activities in foreign markets, or even just to withstand foreign competition in domestic markets, depended more and more on technological capabilities and the speed with which firms could use them to adjust to the changes in competitive conditions. Maintaining or increasing competitiveness in that new environment also required more resources, including financial resources, than were traditionally available to SMEs. Networking, partnering and clustering could help them to overcome their shortage of resources.

38. While technology and technological capabilities had become fundamental determinants of sustained competitiveness, SMEs in developing countries were finding it increasingly difficult to access technology. The least developed countries were perhaps in the greatest danger of being marginalized by the knowledge and technology revolution.

39. Policy choices by Governments could play a vital role in addressing the problems of access to technology and in stimulating technology transfer to SMEs and to SME clusters. Among the issues that needed to be discussed was the challenge to Governments to ensure a balance between the potentially negative impacts of liberalization and the protection of intellectual property rights in technologically weak economies. Another issue was the relationship between foreign direct investment (FDI) and the building of local technological capacity.

40. Since technology was concentrated in the more advanced economies of the world, the questions facing policy makers were how to facilitate access by SMEs to technology, how to foster beneficial linkages between transnational corporations and SMEs, how to induce transnational corporations to transfer technology to SMEs and how to stimulate networking between SMEs and domestic firms involved in research and development, as well as between local firms and international research-and-development institutions in the developed countries. She hoped that the deliberations of the Commission would generate a number of concrete recommendations, notably with respect to: (a) principles of good practice for helping SME clusters to upgrade; (b) assistance to SMEs in financing the process of upgrading and continuous learning; (c) ways to maximize the benefits from FDI with respect to technological capability development and technology transfer; and (d) proposals for future analytical work and policy research after UNCTAD X.

41. The spokesperson for the **Latin American and Caribbean Group** (Chile) said that the competitiveness of SMEs depended on their entrepreneurial competence in the areas of human resources, finance, production and marketing, and on their ability to attract and absorb new technologies. Governments should create an enabling environment for SMEs through stable macroeconomic policies and an open and flexible regulatory framework in order to stimulate free competition, research and development, and to create neutral conditions that fostered entrepreneurial activity, developed competitive advantages and created access to both national and foreign financial resources and new technologies.

42. An important consideration in terms of the sustainability of SMEs was access to international markets. SMEs which marketed their products abroad often faced difficulties in accessing the markets of both developed and developing countries. Certain conditions, such as certification or other non-tariff measures, were real barriers to access. Therefore, to improve the competitiveness of SMEs, it was not simply a question of the Governments of developing countries financing such certification but more a question of the developed countries giving real access to their markets by eliminating trade distortions caused by subsidies. Finally, he emphasized that private sector competitiveness was fundamental to the economic development of countries.

43. The representative of **Cuba** supported the statement made by the representative of the Latin American and Caribbean Group. He said that one of the most pressing tasks facing the entrepreneurial system was to increase competitiveness, which would depend on the development and efficient use of new technologies. Governments should support measures to protect SMEs and to stimulate the creation of SME clusters, which would allow such enterprises to take advantage of economies of scale and to produce higher quality at lower cost. The capacity to absorb and utilize new technologies efficiently did not only depend on the nature of companies or their level of development but also on the technological infrastructure of the country in which they were located. The latter depended greatly on the level of education in a country: for example, a developing country with a high level of illiteracy would find it very difficult to absorb the latest technologies on a large scale and would also be less able to attract foreign investment or extremely costly and complex technology transfers.

44. He drew attention to the scale of the challenge facing the countries of Latin America and the Caribbean, where 210 million people, out of 499 million inhabitants, lived below the poverty line. The challenge was not insurmountable: even though the economic development of Cuba had suffered as a result of a blockade, its domestic product had grown by 6.1 per cent in the first six months of 1999, a far higher growth rate than the estimated 2.5 per cent.

45. The representative of **Finland**, speaking on behalf of the **European Union**, expressed appreciation for UNCTAD's analysis of policies and non-fiscal measures for upgrading SME clusters. If SMEs were to be competitive and really contribute to economic development and employment creation, they needed to be operating in an enabling environment. Enterprises could not develop in a social vacuum. Clusters were a key element in the "competitiveness of nations" and deserved the attention of UNCTAD. There was a need for intense efforts in research and development for enterprises to pursue the so-called "high road" to competition, through research and development and innovation, rather than the "low road", through a search for low costs that, in the long run, would lead them out of the market. It was therefore essential to be able to master and to transfer the four different forms of knowledge: knowledge of *what, how, why* and *who*. It was important to integrate in a flexible way the codified knowledge of universities and international connections with the tacit knowledge embodied in the local industrial system and in its specific production methods.

46. The representative of **Japan** said that access to information on the latest technologies had become vital for enterprises, but SMEs, particularly those in developing countries, often lacked the financial and human resources to achieve such access. Experience in Japan had proved the effectiveness of SME networking and clustering in helping them to overcome those difficulties. While SMEs needed to take the initiative themselves, Governments could play a significant role by offering them subsidies, guarantees and more favourable tax treatment.

Summary of the informal discussions on agenda item 3 [2]

47. The Commission examined the role of public policy in facilitating and stimulating SME cluster upgrading and technological capability development, including the role of private sector institutions and the international community. Among the issues considered were: the role of government, the private sector and other institutions in technological capability development; the need for policies to be geared towards the technological endowments of a country; and the need for policies to address both the demand and supply side of technological capability development.

48. The discussion started with presentations by two resource persons invited by the secretariat. Mr. Reinie Biesenbach, from the Council for Scientific and Industrial Research (CSIR) of South Africa, introduced the main issues relating to models of technology acquisition and their influence on local technological capability development in the context of the experience in South Africa. Past policies had contributed to an industrial structure characterized by a narrow

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[2] Prepared by the UNCTAD secretariat

economic base, little beneficiation, low levels of competition and a social context of limited participation. It was within that context that research and technology institutions operated. Historically serving only the white minority, the formal sector and the needs of the apartheid State, those institutions had developed capabilities and competencies unsuited for the developmental challenges currently facing South Africa.

49. In the new South Africa, CSIR had established its "technology for development" drive, the main aim of which was to have an impact on the economy of South Africa in the long term. In the short term, CSIR had to address the issue of unemployment, especially in the SME domain, and at the same time address the need to improve the quality of life of ordinary South Africans, particularly through improved infrastructure and economic empowerment, with a special focus on the rural population. The "technology for development" programme had been established as a corporate programme and had aligned its strategy with the national strategy for small business development, which had as its main focus the economic empowerment of all South Africans. CSIR's vision for SMEs was to assist them in technology transfer and partnering and to fight poverty and build global competitiveness in order to make a real and enduring difference in people's lives.

50. The role of CSIR and other research and technology organizations in supporting small businesses was outlined in the Government's "National small business strategy" White Paper, and included: access to information and advice to SMEs; close cooperation on infrastructure needs with national departments, levels of government, wholesale financiers and the private sector; access to appropriate technology; impact at the local level through programmes and support organizations; and support to SMEs though functionally specialized associations offering services at cost or on a subsidized basis, with funding from external sources or obtained through cross-subsidization.

51. With regard to networking, partnering and clustering, at the national level the various science councils had recently begun to consider closer collaboration among themselves and also with South African universities; at the regional level, initiatives throughout southern Africa included closer cooperation between research and technology organizations, and several "spatial development initiatives" spanning international borders. Many of those initiatives had single, large anchor projects with considerable potential for SME cluster formation, for example in the automotive industry in the Eastern Cape.

52. At the international level, a first meeting of heads of industrial research institutes in several countries in the southern hemisphere was due to take place shortly in Montevideo, Uruguay. Furthermore, there were emerging relationships between CSIR, the Fraunhofer-Gesellschaft of Germany and the Netherlands Organization for Applied Scientific Research. Those relationships offered scope for the transfer of skills and joint partnering with the private sector. Discussions were under way between Daimler Chrysler AG, the World Bank Group, non-governmental organizations and other organizations in Brazil and several South African organizations, aimed at the establishment of indigenous plant-fibre projects in the Amazon region and in South Africa, to produce natural plant fibre for use in composite automobile components. Such partnering was of the kind that could really have an impact.

53. Mr. Philip Sowden, from Technopolis Ltd (United Kingdom), made a presentation on policies and non-fiscal measures for upgrading SME clusters. He noted that before considering measures for upgrading clusters, it was important to bear in mind what the main driving forces were in the global economy. If SMEs were to survive in the global economy, they had two choices: either they had to sell more or cut their costs. To sell more (or increase the profit on sales), they had five principal options: (a) innovate – improving products and processes through research and development (R&D); (b) price adjustment – using flexible pricing policies; (c) better market locations; (d) promotion; and (e) training and rewarding sales people. Cost-cutting could also be achieved in several ways: (a) improved product design; (b) more efficient manufacturing systems; (c) reduction of overheads; and (d) training people.

54. Government investment in SME innovation, education and technology was often prompted by the departure of a major transnational corporation, and SME development was seen as a solution to the resulting increase in unemployment. In fact, it would be better if such State investments were made earlier and if commitments were extracted from foreign investors to upgrade SMEs. Those problems had been addressed in a new industrial modernization programme developed for the Government of Egypt with funding from the European Union. In that programme, the upgrading of support institutions, competitiveness, training and the introduction of a national network of business resource centres all received the same attention as the promotion of FDI and trade development.

55. He discussed the Danish Network Programme, which essentially supported inter-firm networks independent of their composition, sector or objectives, and the United States' USNet, which trained State-based intermediaries in the formation of networks. The Danish model had been followed by the Australian and Norwegian Governments. The various models had their own advantages and disadvantages, but evaluations had shown that the less formal programmes, driven directly by companies, had the best survival rates. There were a number of non-fiscal policy measures which could be taken to enhance cluster formation and the development of innovation in SMEs in general, including the stimulation of innovative SMEs at an early stage of their economic development cycle and the creation of strong links between business and education.

56. Commenting on the presentations by the resource persons, some delegates pointed to the need for wider links between SMEs from developing countries, especially the least developed countries, and R&D institutions in the rest of the world. That was particularly important given that developing countries accounted for only a fraction of the R&D undertaken by transnational corporations and by public and private research and technology organizations (RTOs) in developed countries. The ability of developing countries to meet the development objectives of their national development plans therefore depended on the technology linkages they could forge with firms and RTOs elsewhere. Governments in developing countries could also have an impact on technological upgrading through procurement and outsourcing. They could also take a more proactive role in funding collaborative research between SMEs, RTOs and transnational corporations. It was important for Governments to consider the creation of national departments of science and technology and to develop science, technology and innovation policies that supported SMEs and helped to strengthen enterprise competitiveness, thereby increasing their

participation in international trade. Policy coherence at every level of government was considered to be essential. In that context, it was noted that in many countries SME support units were to be found in ministries or other agencies working alongside each other without coordinating their activities. In one country, an inter-agency council had been set up to avoid that problem, but some delegates doubted whether the creation of central institutions supporting all aspects of SME development would be feasible.

57. The third resource person, Ms. H. Lastres, of the Federal University of Rio de Janeiro, Brazil, focused on policy targets that could promote sustainable SME development and innovation. She recommended that policies should target SME clusters and local systems of innovation at all levels. Policies should promote technological, managerial and marketing upgrading as well as learning capacity. That could be done through effectively promoting the development of meso-level institutions (RTOs, business associations, business development service providers, etc.). Linkages between SMEs and meso institutions could also be beneficial in various ways, including in the dissemination and diffusion of information, particularly with institutions from the North. Policies should also aim at the development of physical and technological infrastructures (for example in terms of transport and telecommunications) and of human resources. Tailor-made financial programmes involving governmental, private and international support were needed. Governments also had a role to play in facilitating cooperation and in efforts at the international and domestic levels. While FDI and transnational corporations could be powerful instruments, they were not always effective and could not be a substitute for local technological efforts. Country-specific factors such as the learning and innovative culture had to be taken into account when designing policies. Overall, policies had to address both the demand side, including factors such as export orientation and trade liberalization, and the supply side, including factors such as the development of a technological infrastructure.

58. It was vital that entrepreneurs should have access to information on technology and markets, finances and human resources. Several delegates described domestic policies and gave examples of successful clustering and networking which facilitated such access. It was suggested that Governments should help SMEs to overcome access problems and assist in the strengthening of clusters, by providing incentives and adopting other policy measures. However, they should not provide incentives that would distort the market, or violate international rules set by WTO. Governments should create an enabling environment for FDI and encourage opportunities for subcontracting and technology transfer. The appropriate promotion of business development services, both financial and non-financial, could be an important factor in strengthening the competitiveness of SMEs and could facilitate access to R&D. Some delegates pointed out that reliable and predictable legal systems were a precondition for investment and business development. It was stressed by some delegates that Government should be seen as a facilitator rather than as a general planner in the cluster development process. The need for Governments to ensure that policies were consistent and coherent, as well as the need to engage in dialogue with the private sector, was emphasized by several delegates. Coherence also meant coordination of the fiscal incentives used to attract investment in order to avoid ruinous competition among different local communities within a country.

59. In terms of the linkages between transnational corporations and SMEs, delegates described positive experiences where a real technology transfer had occurred (for example in the food industry) as well as negative experiences where more of an exploitative relationship had been established (for example in the textile industry). Delegates recommended that further studies should be carried out on successful experiences and on the conditions for such success. Steps could be taken by Governments to ensure that FDI contributed to innovation by attracting innovative companies and by developing policies that stimulated technology transfer, the formation of local supplier networks, training and exit strategies. Delegates felt that Governments should also encourage transnational corporations to work more with local research organizations in developing countries.

60. Could linkages help SMEs to grow and sustain competitiveness? Several delegates gave examples of effective projects and experiences involving linkages between SMEs and RTOs that had supported that process. The examples included industry-upgrading programmes such as the upgrading programme undertaken in Egypt, Morocco and Tunisia with the participation of the United Nations Industrial Development Organization (UNIDO), which focused on modernization, technology-upgrading and improving the competitiveness of enterprises, particularly SMEs.

61. Delegates also drew attention to the difficulties SMEs had encountered because of their lack of access to finance. In some cases, the problem could be solved by setting up credit guarantee schemes or through cooperative or collective measures. UNCTAD was called upon to use its networks of institutions to obtain information on successful experiences of credit guarantee and venture capital schemes and to make that information generally available. It was suggested that UNCTAD could assist developing countries in establishing stable links with international financial institutions with a view to improving financing and creating evaluation instruments. Among other difficulties facing SMEs was the imposition of international standards and certification procedures which could act as non-tariff barriers to trade.

Action by the Commission on agenda item 3

62. At its closing plenary meeting, on 23 July 1999, the Commission adopted its agreed conclusions and recommendations on agenda item 3 (see chapter I of this report).

Closing statements on agenda item 3

63. The representative of **Finland**, speaking on behalf of the **European Union**, said that nothing contained in those recommendations addressed to UNCTAD should prejudge the decisions reached at UNCTAD X and that, in that respect, the UNCTAD secretariat should ensure that any action taken on such agreed conclusions and recommendations should only take place on completion of activities already agreed upon by the Commission and endorsed by the Trade and Development Board.

64. The representative of the **United States of America** supported the statement made by the representative of Finland, and said that the secretariat must provide progress reports on the work it did carry out.

65. The representative of **Colombia** said he was somewhat perplexed by the statement by the representative of Finland. Surely it did not mean that none of the agreed recommendations addressed to UNCTAD were to be carried out? The work of the Commission was of great value and he hoped that the secretariat would be able to implement the recommendations as agreed.

Chapter IV

ELECTRONIC COMMERCE AND THE INTEGRATION OF DEVELOPING COUNTRIES AND COUNTRIES WITH ECONOMIES IN TRANSITION IN INTERNATIONAL TRADE

(Agenda item 4)

66. For its consideration of this item, the Commission had before it the following documentation:

> "Can electronic commerce be an engine for global growth? Electronic commerce and the integration of developing countries and countries with economies in transition in international trade" (TD/B/COM.3/23).

67. The **Director of the Division for Services Infrastructure for Development and Trade Efficiency (SITE)** briefly reported on the implementation of the recommendations of the Commission since its first session, as requested by various delegations. He recalled that at the first session, the newly constituted SITE had made a presentation on its work in the areas identified under item 4 of the agenda, and the Commission had considered that such work "should be pursued in an integrated fashion". He reviewed the progress made in the areas of trade facilitation, customs, transport, transit, business information, electronic commerce, legal issues, human resource development and training, and banking and insurance, including microfinance. He focused on the impact of SITE activities in developing countries, including in the least developed countries (LDCs), over the last three years. He stressed that additional work was needed to achieve the overall objective of trade efficiency. However, he believed that the successful implementation of many SITE programmes and the efforts to reorganize and strengthen other programmes would facilitate the achievement of that objective in the years to come.

68. The representative of the **UNCTAD secretariat**, introducing agenda item 4, stressed the importance of the development dimension of electronic commerce. In that connection, important questions were how e-commerce was going to make a difference in trade and development and how UNCTAD could make a difference in e-commerce. Currently, most e-commerce was concentrated in OECD countries, and it was growing fast and changing the nature of trade. E-commerce was global in nature and global rules for it were in the making. A development dimension needed to be incorporated in international debates, discussions and negotiations on e-commerce.

69. The key words in e-commerce were access, know-how and trust. With regard to access, it was not UNCTAD's role to establish the necessary physical infrastructure, but UNCTAD did have an important contribution to make by providing ideas and disseminating experiences which could encourage investment in infrastructure and reduce access costs. With regard to know-how,

the pace of change in the techniques and *modus operandi* of e-commerce was such that knowledge could only come from practice, which was why UNCTAD's training in e-commerce, as well as the national, regional and interregional workshops conducted by UNCTAD on e-commerce, focused on the identification and exchange of experiences among enterprises involved in e-commerce. With regard to trust, proper legal and regulatory instruments were required at the international level, which would need to be adapted to national specificities.

70. Access, know-how and trust involved legal and regulatory aspects, economic and social issues and technical dimensions. The intersectoral nature of e-commerce was a source of comparative advantage for UNCTAD, which was uniquely placed to consider such aspects in an interrelated fashion. He said that UNCTAD's specificity in e-commerce related to its development approach, its intersectoral expertise, its analysis-practice-consensus approach and its cooperation with other organizations. Its work priorities were assessment, awareness-raising and trust/consensus-building. Assessment covered issues such as who was engaging in e-commerce, the components of e-commerce, the link between e-commerce and trade logistics, supply-chain management and facilitation strategies, as well as analyses, scenarios and projections. Its role in raising awareness included the collection and dissemination of information, the stimulation of exchanges of experience and acting as a driving force for inter-institutional cooperation. The latter activity was being pursued in particular through the joint establishment of a website with other organizations, jointly conducting regional and interregional workshops and taking an active part in international discussions on e-commerce held in other forums. UNCTAD's work in capacity-building focused on encouraging SMEs to participate in e-commerce, human resources development, establishing appropriate regulatory and legal instruments and identifying the trade policy implications and macroeconomic impact of e-commerce. Expert meetings, analytical and case studies and econometric studies and scenarios, as well as direct assistance, supported those activities. Capacity-building also involved building trust through the consideration of issues linked to governance, the promotion of cost-effective tools and the promotion of local content in e-commerce.

71. He described the concept of "*e-velopment*", pointing out that e-commerce was not an end in itself but a mutual learning process that challenged established models, and which was at the core of the emerging "knowledge economy". E-commerce also called for imagination and an open mind.

72. The tasks ahead included the assessment and measurement of access and usage costs, the consideration and exchange of experiences and anticipation of evolutions, trends and conflicts. In that connection, the priority issues were access, human resources, legal and regulatory frameworks, financial and fiscal dimensions, security and trust, content and governance.

73. The representative of **Japan** expressed her appreciation to UNCTAD for convening in June 1999 the very successful workshop on the exchange of experiences among enterprises involved in e-commerce. She supported the convening of regional workshops on e-commerce and suggested that UNCTAD should also invite participants from developed countries, since the experiences of those countries would benefit the developing countries.

74. The spokesperson for the **Latin American and Caribbean Group** (Chile) supported UNCTAD's research and analytical work in e-commerce as well as the regional workshops. Governments should promote policies supportive of e-commerce: the challenge was to create the infrastructure to support e-commerce. E-commerce was an enabling tool for SMEs trying to be more competitive, and there was a need to set up new human resources development and management tools. UNCTAD could play a major role in overcoming the constraints faced by developing countries in e-commerce. He supported the proposals made by UNCTAD to address e-commerce in a comprehensive way and he also supported UNCTAD's cooperation with other organizations.

75. The representative of **Finland,** speaking on behalf of the **European Union**, said that there was a need for developing countries to benefit from e-commerce from the very beginning. Many initiatives on e-commerce were being taken by various organizations, and developing countries could take advantage of those initiatives. Work carried out by other organizations would play an important role in setting the standards for e-commerce. Regional workshops also had the potential to assist SMEs. Governments had a role to play in taking policy decisions that would promote the participation of all countries in e-commerce. Furthermore, work carried out by UNCTAD and the World Bank (such as the InfoDev programme) could be used to achieve effective results in the future.

76. The representative of **Cuba** supported the views expressed by the representative of Chile. E-commerce did provide potential benefits to developing countries and their SMEs, but there was a need to develop the human resources and physical infrastructure in those countries so that those benefits were realized. There were particular problems in rural areas, which needed assistance. There was also a need to promote legal frameworks and protect privacy, and UNCTAD's role in those areas was significant.

77. The representative of **China** said that e-commerce was developing rapidly and would have a big impact on trade. UNCTAD had an important role to play in helping developing countries to participate in e-commerce, and that role should not be taken over by other international organizations. A national e-commerce centre had been set up in China, but the necessary infrastructure was not yet fully in place and a legal and regulatory framework needed to be established. International organizations should avoid adopting strategies which might impede the trade of developing countries. The use of e-commerce should not be allowed to restrain other forms of trade, especially since developing countries were lagging behind developed countries in e-commerce. She suggested that UNCTAD could provide developing countries with policy guidance and training.

78. The spokesperson for the **African Group** (Zambia) supported the proposal of Japan to extend invitations to developed countries to attend the workshop on e-commerce to be convened for the African region. He requested the UNCTAD secretariat to carry out a study to assess the needs of African countries in terms of the infrastructure and human resources required for the region to be able to participate in e-commerce.

79. The representative of the **United States of America** said that there were deficiencies in the work of SITE that needed to be rectified before UNCTAD X. There was no statistical basis to carry out an evaluation of the value-added and efficiency of SITE's operational programmes, and a country-by-country analysis of the value-added and efficiency of those programmes needed to be carried out; programmes had not yet achieved financial self-sustainability; there was a lack of transparency in the area of secure electronic authentication, and the division had acted outside its mandate in that area; and information on the partnerships launched in Lyon was given to member States only after the event, which had led member States to call for clear legal guidelines on any further involvement of UNCTAD with the business sector.

80. She said that UNCTAD could play a positive role in e-commerce but it was for member States to determine what value-added activities UNCTAD could carry out in that area. Analytical work on the links between e-commerce and development should be made available at the level of the Commission (and not only at the regional seminars). She asked for detailed information on the projects to be carried out under the Development Account, and asked why the proposals had not been submitted to Geneva-based delegations for their input. Finally, she requested SITE to provide timely information on any parallel event that might be organized during UNCTAD X related to civil society or to microfinance. With regard to the latter, she noted that "A Partnership for Growth and Development" did not give UNCTAD any mandate on microfinance.

81. The **Director of SITE** replied that all field projects were evaluated by tripartite reviews, involving the recipient, the donor and UNCTAD. Evaluating the long-term effects of all UNCTAD programmes was by no means an easy task and would require extensive resources. However, some very positive signals had emerged from evaluations by Governments, such as that by the Government of the Philippines, which had estimated at US$ 200 million the revenue increase generated by the ASYCUDA programme in that country in its first year of operation, or the assessment conducted by the African Insurance Organization, which showed that as many as 16 countries had substantially changed their legislation as a result of UNCTAD's project to help to establish more effective supervisory bodies in Africa and in the Caribbean region, and that many more had established an embryonic supervisory body. The value-added of programmes such as ASYCUDA or ACIS was fairly evident from the number of requests for them that UNCTAD continuously received from developing countries. UNCTAD's drafts of transit transport agreements had been adopted by as many as 23 countries in three different regions and more were to come. Meanwhile, TRAINMAR was training approximately 10,000 maritime operators per year.

82. With regard to microfinance, he recalled that "A Partnership for Growth and Development" stated that access to credit and equity capital was important for all enterprises and could be particularly challenging for micro-enterprises and SMEs (TD/378, Rev. 1, para. 48) and that UNCTAD's primary role was to assist developing countries in generating trade-supporting services which were adapted to their particular requirements, with a particular focus on services addressing the needs of the informal, micro, small and medium-sized enterprise sectors (para. 92). Moreover, the Commission, at its second session, had noted the important facilitating role UNCTAD could play in bringing together international assets managers, banks, microfinance

institutions and Governments, and had agreed that such work should continue to be pursued (TD/B/COM.3/11).

83. The representative of the **UNCTAD secretariat** said that discussions were under way on the establishment of a joint website with ITU and WIPO. There was also collaboration with the United Nations Development Programme (UNDP), which had been invited to all three regional workshops on e-commerce. UNCTAD was also currently discussing with the World Bank the possibility of carrying out joint activities under the InfoDev programme. The UNCTAD Secretary-General had been invited by the World Bank to attend meetings on the subject. With regard to e-commerce-related projects undertaken under the Development Account, he noted that a detailed description of the activities covered by the relevant resolution of the United Nations General Assembly was contained in documents issued at United Nations Headquarters which would be made available to interested delegations during the session.

Summary of the informal discussions on agenda item 4 [3]

84. The informal discussions took into account the introduction by the representative of the UNCTAD secretariat and also the conclusions of the Expert Meeting on capacity-building in the area of electronic commerce: legal and regulatory dimensions, held in Geneva from 14 to 16 July 1999. The discussion focused on four main areas: physical infrastructure and capacity-building; the legal and regulatory framework; the role of Governments; and the role of UNCTAD.

Physical infrastructure and capacity-building

85. It was emphasized that the lack of infrastructure, especially telecommunications infrastructure, was one of the key factors constraining the participation of developing countries in e-commerce. Many developing countries, especially LDCs, had "silent zones" with no telecommunications, and for such countries the establishment of the basic infrastructure was essential even before considering e-commerce. Given that it was unlikely that the telecommunications sector would be receiving any considerable inflow of public financial assistance, it was important to establish a suitable climate for investment. Developing countries could take advantage of the latest technologies, which were available at relatively low cost, to catch up in the development of e-commerce. Experience had shown that SMEs, even those in LDCs, could launch successful ventures in e-commerce, despite the overall constraints they might face in the supply of telecommunications.

86. It was generally agreed that although UNCTAD could not play a leading role in the provision of the physical infrastructure for e-commerce, it could be instrumental in raising awareness in developing countries with regard to the opportunities that were available. It could also help them in adapting e-commerce to the needs of enterprises by developing databases and compiling information on e-commerce and disseminating them to the developing countries.

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[3] Prepared by the UNCTAD secretariat.

87. There was also general agreement on the critical role of capacity-building. In that regard, workshops, seminars, training courses and various forms of technical assistance were considered to be essential in enabling developing countries to attain the knowledge and skills required for participation in e-commerce.

The legal and regulatory framework

88. Trust, predictability and security were recognized as essential factors in the success of e-commerce, and therefore supportive laws and regulations were needed. It was noted that the legal and regulatory framework was essentially the domain of other organizations, such as WIPO, WTO and UNCITRAL, although UNCTAD could play a promotional role.

The role of Governments

89. Governments, especially those of developing countries, had a critical role to play in promoting e-commerce. Their participation was needed in establishing the communications infrastructure, attracting investment (including foreign direct investment) and in providing legal and regulatory support for e-commerce activities. Governments could also be active participants in e-commerce themselves, and could provide training and human resources development and help in the promotion of an "e-culture" in their respective countries. They were also expected to support the private sector in making investments and in the actual conduct of e-commerce.

The role of UNCTAD

90. The work carried out by the secretariat in the area of e-commerce was greatly appreciated. In particular, the workshops and seminars organized so far were considered to have been very useful in providing valuable information on e-commerce and in enabling participants to exchange practical experiences. The secretariat was encouraged to continue with the workshops and seminars, as well as other forms of training and information exchange.

91. There was broad consensus on the role that UNCTAD had to play and on the approach it should adopt in its work. UNCTAD had to work in areas where it had a comparative advantage. In that connection, emphasis was placed on the following:

(a) UNCTAD's work had to focus on the development dimensions of e-commerce. Analytical work was needed to show the linkages between e-commerce and economic development and also the linkages between e-commerce and individual sectors such as insurance, banking, transport and trade facilitation. Such work should lead to the publication of documents and brochures that would describe e-commerce in all its aspects and that would provide practical information to developing countries concerning the prevailing problems and how to address them;

(b) UNCTAD should take advantage of its comparative advantage in being unique in dealing with the legal, regulatory, economic and social aspects of e-commerce

in an interrelated manner. It should continue to deal with intersectoral issues related to e-commerce, including trade logistics, supply chain management and trade facilitation strategies;

(c) UNCTAD's analytical work had to be linked to its programme of technical assistance, training and human resources development. Developing countries needed to be assisted in dealing with such issues as the transfer of technology, intellectual property, domain names and so on; and

(d) UNCTAD should carry out its work in cooperation with other relevant organizations, including ITU, WIPO, WTO, ITC and UNCITRAL. The creation of a joint website by UNCTAD and other organizations was welcomed, but it was also necessary to analyse the work carried out by the other organizations in the area of e-commerce. UNCTAD could play a role in unifying the work being carried out by the various organizations. It could also assist developing countries in preparing for negotiations related to e-commerce.

Action by the Commission on agenda item 4

92. At its closing plenary meeting, on 23 July 1999, the Commission adopted its agreed conclusions and recommendations on agenda item 4 (see chapter I of this report).

Closing statements on agenda item 4

93. The representative of **Finland**, speaking on behalf of the **European Union**, said that nothing contained in those recommendations addressed to UNCTAD should prejudge the decisions reached at UNCTAD X and that, in that respect, the UNCTAD secretariat should ensure that any action taken on such agreed conclusions and recommendations should only take place on completion of activities already agreed upon by the Commission and endorsed by the Trade and Development Board.

94. The representative of the **United States of America** said that because of the proximity of UNCTAD X she had not wanted to block consensus, but in her view UNCTAD had no comparative advantage in the area of legal and regulatory frameworks for electronic commerce, which could be better dealt with by UNCITRAL. However, she supported UNCTAD's analytical work on electronic commerce, provided it did not duplicate the work of other organizations.

Chapter V

REPORTS OF THE SUBSIDIARY BODIES OF THE COMMISSION

(Agenda item 5)

95. For its consideration of this item, the Commission had before it the following documentation:

"Report of the Expert Meeting on providing sustainable financial and non-financial services for SME development" (TD/B/COM.3/26-TD/B/COM.3/EM.7/3)

"Electronic commerce: legal and regulatory dimensions - Agreed conclusions and recommendations" (TD/B/COM.3/EM.8/L.1)

Summary of the informal discussions on agenda item 5 [4]

96. All regional coordinators expressed appreciation for the analytical work carried out by UNCTAD. The important role of SMEs in stimulating economic development was repeatedly emphasized. As a consequence, the secretariat was urged to continue helping developing countries and countries with economies in transition to develop support structures that would enable SMEs to become more competitive and to participate actively in international trade.

97. There was broad agreement with the overall diagnosis made by the experts, with respect to the analysis of both the financial and non-financial constraints undermining the growth of the SME sector in developing countries. It stressed the need for an efficient, self-sustainable and cost-effective business development services system. The importance to SMEs of close linkages and the potential synergies between non-financial and financial services were also noted by the Commission.

98. However, strong reservations were raised regarding UNCTAD's involvement with the private sector. It was observed that a code of conduct would have to be developed before any contact between UNCTAD and private financial institutions could be sanctioned by the Commission.

99. The discussions on the outcome of the Expert Meeting on the legal and regulatory dimensions of electronic commerce focused on the importance of an adequate legal and regulatory framework for the development of electronic commerce, the role of education and training, and cooperation among international organizations.

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[4] Prepared by the UNCTAD secretariat

100. All regional coordinators stressed the paramount importance of having the right legal and regulatory set-up to ensure capacity-building in the area of electronic commerce. The need for changes to overcome regulatory obstacles and for the harmonization of laws to create a transparent and conducive legal framework was underlined by many delegates. Tax benefits, registration, domain names, electronic signatures and encryption and the use of new technologies were among the areas that needed to be dealt with.

101. There was also agreement that human resources were the key to successful capacity-building in e-commerce. Delegates stressed the importance of UNCTAD's analytical and training materials as well as its workshops and seminars on e-commerce, particularly those covering regulatory and legal aspects.

102. Many delegates emphasized the important coordinating role of UNCTAD in an integrated approach to e-commerce, as well as its ability to disseminate information on the activities of other players, especially those of other international organizations, in the development of e-commerce. They noted the competence of UNCITRAL, WIPO, WTO and OECD and others in specific areas of e-commerce, particularly in their contributions to the creation of a legal and regulatory basis for e-commerce. Further coordination among international organizations would allow UNCTAD to help developing countries and countries with economies in transition to understand the implications of changes in the regulatory field in the area of e-commerce as well as the impact of the latter on trade and development.

Action by the Commission on agenda item 5

103. The Commission took note of the report of the Expert Meeting on providing sustainable financial and non-financial services for SME development, and recommended that the Trade and Development Board should endorse the agreed conclusions and recommendations as contained in document TD/B/COM.3/26-TD/B/COM.3/EM.7/3, with the exception of paragraphs 8 and 9, and with paragraph 6 (addressed to UNCTAD) amended to read as follows:

> "6. To identify, analyse and disseminate tools of assessment of financial requirements of SMEs, and innovative approaches used by micro credit institutions, which can be used by mainstream financial institutions to facilitate financing of SMEs' development and reduce risks and transaction costs, and to report back to the Commission as soon as possible;"

104. The Commission also took note of the oral report on the Expert Meeting on capacity-building in the area of electronic commerce: legal and regulatory dimensions, and recommended that the Trade and Development Board should endorse the agreed conclusions and recommendations as contained in document TD/B/COM.3/EM.8/L.1, with paragraph 17 (addressed to UNCTAD) amended to read as follows:

"17. UNCTAD, in cooperation with other relevant international organizations and within existing human and financial resources, should seek to assist developing countries, upon request, in understanding the implications of various legislative approaches to accommodating electronic commerce;"

105. The Commission noted that nothing contained in those recommendations addressed to UNCTAD should prejudge the decisions reached at UNCTAD X and that, in that respect, the UNCTAD secretariat should ensure that any action taken on such agreed conclusions and recommendations should only take place on completion of activities already agreed upon by the Commission and endorsed by the Trade and Development Board.

Closing statements on agenda item 5

106. The representative of the **United States of America** noted that the statement on not prejudging the outcome of UNCTAD X would not affect the holding of the workshops on electronic commerce, which had been agreed upon by the General Assembly. She noted that the Deputy Secretary-General had agreed that no more money would be spent on Trade Points until the in-depth evaluation of the Trade Point Programme had been completed. She also hoped the statement would spur the secretariat on to complete its work on previous recommendations of the Commission.

107. The representative of the **UNCTAD secretariat** said that work on the recommendations addressed to UNCTAD at the previous session of the Commission was expected to be completed by the end of the year.

108. The spokesperson for the **Latin American and Caribbean Group** (Chile) said that expert meetings, including those on SME development and electronic commerce, had been of great benefit to developing countries, and UNCTAD should continue to organize such meetings.

Chapter VI

PROGRESS REPORT ON THE IMPLEMENTATION OF AGREED CONCLUSIONS AND RECOMMENDATIONS OF THE COMMISSION

(Agenda item 6)

109. For its consideration of this item, the Commission had before it the following documentation:

> "Progress report on the implementation of agreed conclusions and recommendations of the Commission: the impact and relevance of electronic commerce on trade growth and development" (TD/B/COM.3/25);
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> "Progress report on the implementation of agreed conclusions and recommendations of the Commission: issues related to enterprise development" (TD/B/COM.3/27).

Summary of the informal discussions on agenda item 6 [5]

110. The secretariat presented an overview of the deliberations of the Commission and its expert groups over the past three years and introduced the progress report on the implementation of recommendations from the third session of the Commission on Enterprise, Business Facilitation and Development. In presenting the progress report, the representative of the secretariat said that work was under way on all the recommendations, and a few tasks had already been completed. With regard to the Commission's request that UNCTAD should continue and expand technical assistance programmes such as EMPRETEC, the representative explained that EMPRETEC was in the process of a major expansion from 13 to 34 countries thanks to funds from the Government of Italy and the support of the Inter-American Development Bank (IDB) and UNDP. The Italian funds would allow EMPRETEC to be expanded to 10 Mediterranean countries, collaboration with IDB would allow EMPRETEC to be set up in six Central American countries, and UNDP's Enterprise Africa programme would spread the programme to another five African countries.

111. Delegations welcomed the overview and the progress report on action taken by the secretariat on the agreed conclusions and recommendations of the third session of the Commission. A number of delegations expressed appreciation for the important contribution of UNCTAD's EMPRETEC programme to SME development in developing countries and in countries with economies in transition. Representatives of all regional groupings expressed their appreciation for EMPRETEC and declared their full support for the strengthening of the

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[5] Prepared by the UNCTAD secretariat.

programme in those countries where it was already operational and for its expansion to other developing countries.

112. A spokesperson for the Latin American and Caribbean Group said that EMPRETEC was the kind of programme that was very effective, and expressed full support for the continued expansion of its activities in Latin America and the Caribbean. A spokesperson for the African Group requested UNCTAD to continue to expand the programme to more countries in Africa. The representative of the Russian Federation said that UNCTAD's efforts to launch the EMPRETEC programme in his country were a very positive initiative that could contribute to enterprise development there. He expressed the hope that UNCTAD would find the necessary financing to implement the programme in the Russian Federation. A spokesperson for the Asian Group noted that UNCTAD had been requested to expand the programme to Asia at the previous session of the Commission but had not yet done so; he reiterated the interest of Asian countries in benefiting from the programme. One delegation questioned UNCTAD's ability to handle such a major expansion. A representative of the secretariat explained that the expansion would take place over a number of years and that UNCTAD would not be working alone. It always had national counterparts who eventually took over the programme. It also worked with international agencies to take advantage of programmes that were complementary to EMPRETEC.

113. Some delegations expressed concern that the secretariat had not completed the analytical work requested at the third session and questioned the practicability of assigning additional tasks to the secretariat. However, it was pointed out that it was only seven months since the last session of the Commission: many of the activities which were indicated as ongoing in the progress report would be completed by November, when the Commission usually met. The secretariat also highlighted the considerable strain imposed on it by high vacancy rates, which were compounded by lengthy procedures for filling posts and restrictive rules on the hiring of temporary staff, but assured delegations that it could and would carry out all the work assigned to it.

114. In response to a question on whether or not there might be an overlap between UNCTAD's work on SMEs and that of the International Labour Organization (ILO), a representative of the secretariat explained that the work of ILO had traditionally focused on micro-enterprises, although it had recently begun to work on SME issues. UNCTAD's contact with ILO on SME issues was mainly through the Entrepreneurship and Management Development Branch of ILO. UNCTAD had consulted extensively with ILO on its training programme and was currently cooperating with ILO in the context of the Mediterranean 2000 project funded by the Italian Government, and in the context of the project on women entrepreneurs.

Action by the Commission on agenda item 6

115. The Commission took note of the progress report on activities undertaken since its third session, as contained in document TD/B/COM.3/27. The Commission expressed its appreciation for the efforts of the secretariat in providing full and detailed information on the tasks accomplished. It also asked for further clarification on the assignments that were still to be completed, in order not to overburden the secretariat with excessive recommendations before

UNCTAD X. The Commission requested that progress reports should give an account of all finished and unfinished work and that they should be presented at all future sessions of the Commission.

116. After listening to the statements of all regional coordinators, the Commission took the view that UNCTAD should continue to assist both developing countries and countries with economies in transition in identifying best practices in support structures for SMEs, and should continue to operationalize those best practices in its technical cooperation activities. In that regard, the Commission requested that the EMPRETEC programme should be strengthened and expanded to all regions, funding permitting.

117. The Commission also took note of the progress report made in implementing the recommendations addressed to UNCTAD on the impact and relevance of electronic commerce on trade growth and development as contained in document TD/B/COM.3/25.

Chapter VII

OTHER BUSINESS

(Agenda item 7)

118. For its consideration of this item, the Commission had before it the following documentation:

> "In-depth evaluation of the Trade Point Programme: follow-up to the decision adopted by the Working Party on the Medium-term Plan and the Programme Budget at its thirty-third session" (TD/B/COM.3/24)

Action by the Commission on agenda item 7

119. The Commission took note of the report by the UNCTAD secretariat and referred it for further consideration to the Working Party at its thirty-fourth session.

Closing statements on agenda item 7

120. The representative of **Mexico** recalled that the Working Party had requested, in paragraph 10 of its agreed conclusions on the in-depth evaluation of the Trade Point Programme (TD/B/46/2), that the conclusions of the meeting of Trade Point managers, end-users and government experts should be transmitted for consideration to the fourth session of the Commission, and he regretted that the Commission had not considered them.

121. The representative of the **United States of America** said that in order to review how previous mandates had been fulfilled and in order not to repeat exercises already carried out by various ad hoc groups, it would be better to consider all the relevant documents at the same time, rather than review a single document in isolation.

Chapter VIII

CLOSING STATEMENTS

122. The representative of **Finland,** speaking on behalf of the **European Union,** said the Commission dealt with some important subjects, but some of its working procedures were inadequate. There was room to improve the functioning of expert meetings in terms of their follow-up, the format and status of their agreed conclusions, and their timing. UNCTAD X would provide the appropriate opportunity to agree on any changes in the functioning of the intergovernmental machinery.

123. The representative of **China** said that SME development, trade efficiency and electronic commerce were important areas of concern for developing countries, and she appreciated the work done by UNCTAD on Trade Points. UNCTAD would continue to have a major role to play in those areas in order to assist developing countries, through policy analysis, capacity-building and technical cooperation, in becoming integrated in the mainstream of the world economy.

124. The spokespersons for the **Latin American and Caribbean Group** (Chile) and the **Asian Group** (Islamic Republic of Iran) considered the outcome of the session to have been positive and fruitful.

125. The spokesperson for the **African Group** (Zambia) supported the continued holding of expert meetings. Without prejudging the outcome of UNCTAD X, he said the expert meetings had been useful and successful, especially after funding had been provided for experts from developing countries.

Chapter IX

ORGANIZATIONAL MATTERS

A. Opening of the session

126. The fourth session of the Commission on Enterprise, Business Facilitation and Development was held at the Palais des Nations, Geneva, from 19 to 23 July 1999. In the course of the session, the Commission held three plenary meetings (the 13th to the 15th meetings) and 10 informal meetings. The session was opened on 19 July 1999 by Mr. Rubens Ricupero, Secretary-General of UNCTAD.

B. Election of officers

(Agenda item 1)

127. At its 13th plenary meeting, on 19 July 1999, the Commission elected its Bureau as follows:

Chairperson:	Mr. Hasnudin Hamzah	(Malaysia)
Vice-Chairpersons:	Mr. Edward Chisanga	(Zambia)
	Mr. Julio Vasquez Roque	(Cuba)
	Mr. Mark Jones	(United Kingdom of Great Britain and Northern Ireland)
	Ms. Yuki Daijo	(Japan)
	Ms. Marta Ruzickova	(Slovak Republic)
Rapporteur:	Mr. Federico Perazza	(Uruguay)

C. Adoption of the agenda and organization of work

(Agenda item 2)

128. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.3/21. Accordingly, the agenda for the fourth session was as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Assessment of innovative policies and non-fiscal measures for upgrading SME clusters, promoting investment to SMEs and developing their external linkages, taking into account the respective roles of the private sector and governmental and other institutions, with the aim of fostering competitiveness, innovation and productivity in a globalizing world economy

4. Electronic commerce and the integration of developing countries and countries with economies in transition in international trade

5. Reports of the subsidiary bodies of the Commission

6. Progress report on the implementation of agreed conclusions and recommendations of the Commission

7. Other business

8. Adoption of the report of the Commission to the Trade and Development Board

D. Adoption of the report of the Commission to the Trade and Development Board

(Agenda item 8)

129. At its closing plenary meeting, on 23 July 1999, the Commission adopted its draft report (TD/B/COM.3/L.12 and L.12/Add.1), subject to amendments to the summaries of the statements, and authorized the Rapporteur to finalize the report in the light of the proceedings of the closing plenary meeting.

Annex

ATTENDANCE *

1. The following States members of UNCTAD were represented at the session:

Argentina
Austria
Azerbaidjan
Belarus
Belgium
Benin
Brazil
Bulgaria
Burundi
Chile
China
Colombia
Côte d'Ivoire
Cuba
Czech Republic
Democratic People's Republic of Korea
Democratic Republic of the Congo
Dominican Republic
Egypt
El Salvador
Ethiopia
Finland
France
Germany
India
Indonesia
Iran (Islamic Republic of)
Italy
Japan
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mexico
Myanmar
Nepal
Netherlands
Nigeria
Oman
Panama
Peru
Philippines
Portugal
Russian Federation
Rwanda
Senegal
Slovakia
Spain
Sweden
Switzerland
Syrian Arab Republic
Thailand
The Former Yugoslav Republic of Macedonia
Tunisia
Turkey
Ukraine
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay
Viet Nam
Yemen
Zambia

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* For the final list of participants, see TD/B/COM.3/INF.4.

2. The following intergovernmental organizations were represented at the session:

European Community
European Free Trade Association
Organization of the Islamic Conference
South Centre

3. The following specialized agencies and related organization were represented at the session:

International Labour Organization
International Monetary Fund
United Nations Industrial Development Organization
World Trade Organization

4. The Economic Commission for Europe and the United Nations Environment Programme were represented at the session.

5. The following non-governmental organizations were represented at the session:

General Category

International Chamber of Commerce
International Confederation of Free Trade Unions
International Organization for Standardization
World Association of Small and Medium Enterprises
World Federation of United Nations Associations

6. The following resource persons attended the session:

Mr. Reine Biesenbach, Head, Business Development, International Section, Council for Industrial and Scientific Research (CSIR), South Africa
Mr. Philip Sowden, Director, Technolopolis Ltd, United Kingdom
Mrs. Helena Lastres, Brazilian Science and Technology Council, Brazil

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